Energy Choice Matters

Incumbent, Merchant TSPs Fight Over Accessing Green Energy in Texas

ERCOT's current process to select the transmission service provider (TSP) responsible for building new wires was not designed to address "the significant policy issues surrounding" building transmission to access new competitive renewable energy zones (CREZs), the ISO told the PUCT Monday (project 34560).

In a rulemaking, stakeholders have split on how transmission providers should be selected to win CCNs for new routes that would bring more wind power to ERCOT from regions currently lacking sufficient transmission. Almost everyone agrees, though, that the current rulemaking to arrive at a selection process would delay building transmission needed to access the CREZs, impeding the state's green power policy goals. Incumbent utilities and a few generators favor tweaking ERCOT's current transmission service provider selection process, while merchant transmission developers want a more competitive system.

ERCOT, for its part, told the PUCT that processes in its current transmission system planning charter "assume a static group of existing TSPs and assume that the transmission projects are incremental additions between substations owned by these existing TSPs."

ERCOT thinks the PUCT is a better forum to develop a TSP selection process for CREZs because grid construction in the zones will involve the market entry of new TSPs or existing TSPs building in non-traditional areas.

FPL Energy's Lone Star Transmission, a competitive developer, urged the Commission to reject proposals from incumbents to let them decide on a selection process among themselves. "Apparently TSPs believe themselves unable to prevail in a competitive process," Lone Star chimed.

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Commentary: RBS-Sempra Link a Dream Come True ... For a Mass Marketer

We can't help but think RBS' acquisition of Sempra Energy Solutions (see story on Page 2) is a bit of a missed opportunity. While even most skeptics of retail electric choice concede to the robust level of choices for large customers, many policymakers and consumer advocates in most – if not all – restructured markets don't believe competition has brought its promises to the mass market, particularly residential consumers. We're not sure if the retail market can hang on in some states for a few more years for the widespread implementation of advanced meters which should unlock an unimaginable host of new products and value added services for small customers, and think policymakers expect unique offerings now.

We don't pretend to be financial experts here although we know RBS from watching the PGA Tour and associate it with large investors, wealth management and retirement accounts. What we didn't know, until reading the company's affiliate list submitted to the Connecticut DPUC, was that RBS owns hundreds of US retail bank branches, under the Citizens brand in New England and the Mid-Atlantic and the Charter One brand in Illinois, Ohio, Indiana, Michigan. Together they account for over 1,600 branches in 13 states – all of which, except Vermont, offer retail choice in either electricity, natural gas, or both.

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RBS Good to Go in Ct.

The Connecticut DPUC last week approved an electric supplier license for the Royal Bank of Scotland, the soon to be majority owner of Sempra Energy Solutions (SES) (docket 07-12-13). RBS can begin serving customers once acquiring majority ownership, the DPUC said.

RBS is to assume the technical expertise of SES after closing the deal and will keep its focus on serving commercial and industrials in all service territories. Current SES customers are to be switched over to RBS' license shortly after RBS closes majority ownership in SES with service branded as RBS Sempra Energy Solutions initially and eventually as simply RBS.

RBS is to have 150 employees working on retail power in the US and 15 employees dedicated to Connecticut operations, it told the DPUC. For this year, RBS expects to serve four commercial customers in Connecticut for a combined load of 30 MW and throughput of 7,500 MWh, and 11 industrial customers with 45 MW of load and sales of 11,250 MWh.

Retailers Lose in Ct. Variable Peak Pricing Ruling

The Connecticut DPUC approved Connecticut Light & Power's voluntary variable peak pricing (VPP) plan over objections from retail marketers.

The Retail Energy Supply Association (RESA) had argued that CL&P's VPP plan was merely a dressed up Time of Use pricing plan, and did not fit the statutory requirements for critical peak pricing (CPP) or real-time pricing (RTP). CL&P's plan, RESA noted, would charge a single "peak" price for an eight-hour block of the day and would not use a different rate for each hour. In all other hours customers would be charged the regular SOLR rate.

This arrangement, RESA claimed, does not fit CL&P's own definition of CPP, which is a "pricing structure whereby certain hours on certain days where the system is experiencing high peak demand are subject to higher hourly energy prices that reflect market conditions for peak generation and delivery during peak demand periods."

Nevertheless the DPUC found that CL&P's plan "fits within the definition of real time pricing as contemplated in the Act and is supported by key participants to this proceeding," without further elaboration. CL&P had argued that it could not find an industry standard definition for VPP.

Texas Industrials Cry Foul Over Entergy CCN

Texas Industrial Energy Consumers (TIEC) wants the PUCT to issue a declaratory order requiring Entergy Gulf States Inc (EGSI) to comply with PURA and seek permission from the PUCT to transfer its CCN to Entergy Texas, which has already occurred (docket 35183). EGSI transferred the CCN on Dec. 31 as part of its jurisdictional separation plan (JSP), part of a proposal to let EGSI's Texas consumers access retail choice while not impacting ratepayers in neighboring states still under vertical integration.

EGSI thinks it's quite clear it had the legal authority to transfer the CCN. The PUCT already ruled that PURA § 37.154 did not require approvals prior to the closing of the JSP, EGSI reminded. PURA § 39.452(e) states that "[EGSI] may proceed with and complete jurisdictional separation to establish two vertically integrated utilities, one of which is solely subject to the retail jurisdiction of the commission and one of which is solely subject to the retail jurisdiction of the Louisiana Public Service Commission," Entergy added. The PUCT exempted the JSP from approval provisions of PUC SUBST. R. 25.74 in project 34038, EGSI noted.

Nevertheless, TIEC argues that PURA does not allow the holder of a CCN to discontinue service, which EGSI has done. Entergy Texas, a new company, must also get a CCN from the Commission before serving customers, TIEC claimed. Moving the CCN to a new operating company will cause "significant and potentially irreparable economic harm" to ratepayers, including a $30 million increase in the annual revenue requirement associated with transmission costs, potential loss in $20 million in equalization payments from Entergy Arkansas to EGSI, $7 million in debt refinancing charges, loss of PUCT control of rates for assets currently in the Texas ratebase, and potential allocation of Louisiana regulatory costs to Texas customers, TIEC argued.

RBS Commentary …. *From 1*

We used to live in New England and Citizens branches there are as ubiquitous as Dunkin Donuts. To us, this seems like the perfect setup to marry retail banking and retail energy. We imagine posters hanging in branches advertising Free Checking on one side and Free Energy on the other. Sit down and sign up for a CD and review your energy offers while you're there.

RBS also issues its own credit cards and its RBS Lynk unit processes non-cash transactions (such as credit, debit, EBT, loyalty, gift, and check transactions) from merchant point-of-sale terminals, web sites, and ATMs. The marketing, affinity and product possibilities are endless. Energy discounts for paying bills with an RBS credit card, perhaps even an energy-branded card, reward points that can be accumulated through both credit card charges and energy usage, cash back on your energy bill for using your RBS card, etc.

And a value simply cannot be put on the opportunity to brand a competitive energy retailer at 1,600 brick and mortar locations that see thousands of people every day, where people have face-to-face and at-length seated interactions with trusted professionals We know retailers have tried to win customers from physical locales (mall and sporting event kiosks being the most common and Cirro Energy's post office locations in Texas being the biggest venture we're aware of), but RBS leveraging its retail banking operations to market retail energy would dwarf anything prior.

Of course, all this makes sense except that Sempra Energy Solutions is not a mass marketer, and has no immediate plans to depart from that strategy. We understand some retailer's competitive advantage and business acumen lay in serving larger customers and don't mean to suggest Sempra is wrongly ignoring the mass market. Still, we can only think mass marketers would salivate at the opportunities RBS' retail banking presents. We think some embattled state regulators who believe in retail choice, desperate for tangible mass market progress, would love to tout any innovative arrangements as well.

In the more broader scale, we urge retail energy providers to study the products offered by banks to gauge whether any value-adding services can be replicated in the energy world. We don't know how successful the product is (at least enough to spawn imitations), but Bank of America's "Keep the Change" combined checking and savings plan has found a unique place in the market that we think makes customers stop and take notice. So much so Wachovia has rolled out its own program called Way2Save which promotes check card use and online bill payments with an enticing introductory interest rate of 5%. It's the perfect synergy. Banks attract new customers, retain them through a strong product identity, and, best yet, boost their receipts from check card transaction fees by encouraging customers to increase their use.

Where do we see such innovation in retail energy? Mass market energy retailers desperately need something similar to live up to the (perhaps unrealistic) expectations of innovative and bundled products regulators expected from choice, since most regulators haven't accepted fixed-price deals or green power as true value-adding products. We like some retail offerings in Texas that discount the customer's price if the customer uses an automatic bank draft or online billing, since the customer is rewarded for behavior the retailer values -- a faster payment of receivables and less back office paperwork. Still, despite the best efforts of Texas retailers to build name products, we still don't see a product that customers can easily identify because while the names might have good branding, the

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Briefly:

Detroit Ed Website Adds Energy Analyzer

While competitive retailers struggle to convince regulators they bring value to customers, another incumbent utility has created a value added service on its website. This time it's DTE Energy (Detroit Edison) in Michigan which launched a free, online tool called MyEnergy Analyzer to help residential customers and small businesses reduce their bills. The analyzer asks customers specific questions about their apartment, condo, house or small business and offers customized energy efficiency recommendations and estimated savings from the suggestions. Questions include the style of residence, year of construction, number of rooms, floors and occupants and type of heating and cooling system. The tool also queries customers on their appliances and can project how much it costs to operate each annually.

Dominion Proposes Converting Va. Coal Plant

Dominion Virginia Power intends to ask ratepayers to finance the conversion of its coal-fired Bremo Power Station into a natural gas-fired plant as part of its plan to build the Virginia City Hybrid Energy Center, a planned 585-MW clean coal project. Dominion touted the conversion as a means to cut emissions but could not give an estimate of the conversion costs since engineering studies had not been completed. Dominion intends to keep the converted plants in its ratebase to serve native load. The current two units at Bremo can generate over 240 MW and entered into service in 1950 and 1958.

ERCOT EILS Buying Set

ERCOT procured 262 MW of Emergency Interruptible Load Service (EILS) for business hours during the February - May 2008 period, it told the PUCT Monday (project 27706). For those hours, the projected cost is $2.6 million with 10 resources (including five aggregations) with an average price of $9.72/MWh. For non-business hours ERCOT procured 185 MW from seven resources (including two aggregations) for $2.7 million, or an average price of $7.86/MWh.

NRG, BP Team on Texas Wind

NRG Energy subsidiary Padoma Wind Power and BP Alternative Energy entered into a 50-50 joint venture to build the first phase of the 150-MW Sherbino Wind Farm in Pecos County, Texas. The project, located in ERCOT, is scheduled to enter commercial operations in the second half of this year with BP handling operations and dispatch.

Thoughts on ComEd REC Contract Sought

NERA Economic Consulting is asking stakeholders to comment on the standard contract for Commonwealth Edison's procurement of RECs. NERA is administering the RFP for ComEd and is holding a conference call Feb. 13 (www.2008-rfp.com). Comments must be submitted to Dr. Chantale LaCasse of NERA at comments@2008-rfp.com by noon on Feb. 20.

New Gov't Affairs VP for ComEd

ComEd tapped Calvin Butler, a five-year veteran of government affairs at Central Illinois Light Company, as its new vice president of state legislative and government affairs. Butler most recently was senior vice president of external affairs for RR Donnelley, a print services firm.

FERC Submits Budget

FERC submitted a $273 million budget to Congress which includes 1,465 full-time equivalents (FTEs), an increase of 65 FTEs versus a year ago, to support FERC's reliability and enforcements efforts. FERC's operations are funded by fees assessed on the industries it regulates.

FERC Dismisses Public Citizen Complaint

FERC denied Public Citizen's request for rehearing of the Commission's approval for the National Grid-Keyspan merger. Public Citizen had complained about meetings between company officials and FERC Commissioners prior to the merger's filing, but such meetings are clearly allowed under the Administrative Procedure Act.

RBS Commentary …. *From 3*

products are mostly variations on pricing and don't offer a truly unique feature or bonus, yet. Kudos to what affinity programs there are, but retailers need to become a larger presence to mass market customers. We note that one of the most prolific stories in quickly building a book of accounts, Stream Energy, can be attributed to face-to-face interaction between customers and agents, and a tangible experience with their products. We're saving praise for Tara Energy's Superbowl ad for later this week, but in short, it's the kind of thing we expect from retailers, and the kind of presence we think is needed if retailers want to keep the mass market open. In short, customers have to run into retail energy marketing as often as they see their bank, or Starbucks, or Wal Mart, in order for them, and their elected and appointed representatives, to buy into the fact they do have real choices.

Texas TSPs …. *From 1*

Incumbent TSPs, Lone Star argued, want the Commission to rely on a transmission development process that hasn't kept pace with renewable energy resource development to such an extent lawmakers had to pass legislation to create CREZs.

Lone Star noted transmission bottlenecks are insulating generation in metropolitan load pockets from true competition and have boosted power prices.

CenterPoint Energy responded by claiming the PUCT does not have the power to create a competitive process for selection of TSPs since PURA recognizes the provision of transmission remains a monopoly service.

However, in docket 34446 the "Commission emphatically rejects the position that the Legislature intended for transmission and distribution service to remain a monopoly service such that no new entrants to the market could obtain a CCN to construct transmission facilities or equipment unless it is shown that there is a need that cannot be met by an incumbent transmission provider," ITC Panhandle Transmission reminded. New entrants should not be excluded in the name of "simplification," ITC argued.